

## Message Text

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PAGE 01 LONDON 11638 01 OF 02 211700Z  
ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 ICA-11 AID-05 EB-08  
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 FRB-03  
INR-10 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 L-03  
H-01 PA-01 /106 W  
-----012828 211855Z /43

R 211649Z JUL 78  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC 8423  
TREASURY DEPT WASHDC  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY DUBLIN  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL BELFAST  
AMCONSUL EDINBURGH  
USDOC WASHDC

LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 11638

USEEC ALSO FOR EMBASSY  
USOECN ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE; DEPARTMENT OF LABOR;  
TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A  
TAGS: EFIN, ELAB, PINT, UK  
SUBJECT: INCOMES POLICY - THE WHITE PAPER APPEARS

REF: LONDON 10825

SUMMARY: THE CHANCELLOR OF THE EXCHEQUER UNVEILED HMG'S  
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PAGE 02 LONDON 11638 01 OF 02 211700Z

INCOMES POLICY FOR THE COMING PAY ROUND IN A JULY 21  
STATEMENT TO THE COMMONS. THE CENTRAL ELEMENTS PUBLISHED  
IN A WHITE PAPER ENTITLED "WINNING THE BATTLE AGAINST  
INFLATION" ARE:  
-- A 5 PERCENT WAGE GUIDELINE;  
-- AN AVERAGE EARNINGS RISE HALF THAT EXPECTED IN  
PHASE III;

- A MAINTENANCE OF THE 12-MONTH GAP BETWEEN SETTLEMENTS;
  - CONTINUANCE OF SELF-FINANCING PRODUCTIVITY DEALS;
  - MAINTENANCE OF EXISTING PRICE AND DIVIDEND CONTROLS.
- END SUMMARY.

1. THE CHANCELLOR'S 10-MINUTE PRESENTATION REPRESENTS AN EXTENSION OF PRESENT INCOMES POLICY COUPLED WITH MINOR REVISIONS DESIGNED TO ADD SOME FLEXIBILITY TO THE OPERATION OF THE GUIDELINES.

2. THE CENTRAL CHANGE IS THE 5 PERCENT GUIDELINE. THIS IS HALF THE CURRENT NORM AND IS INTENDED TO PRODUCE A RISE IN AVERAGE EARNINGS OF ABOUT 7 PERCENT COMPARED WITH THE 13-14 PERCENT FIGURE LIKELY FOR THE CURRENT PAY ROUND.

3. THE CHANCELLOR MENTIONED SOME LIMITED EXCEPTIONS TO THE 5 PERCENT GUIDELINE. THESE INCLUDE GROUPS OF WORKERS, MAINLY IN THE PUBLIC SECTOR, WHICH HAVE OBTAINED PROMISES FOR HIGHER PAY INCREASES DURING THE COMING TWO PAY ROUNDS. THE POLICE, FIREMEN, AND MILITARY FIGURE AMONG THEM. THEIR EXCEPTIONAL WAGE INCREASES ARE EXPECTED TO ADD ABOUT 0.15 PERCENT TO AVERAGE EARNINGS IN EACH OF THE NEXT TWO PAY ROUNDS. THE CHANCELLOR WARNED THAT IT WOULD LIMITED OFFICIAL USE

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PAGE 03 LONDON 11638 01 OF 02 211700Z

BE SELF-DEFEATING TO ADD MANY MORE GROUPS TO THE ONES ALREADY EXCEPTED.

4. MR. HEALEY URGED EMPLOYERS TO WORK WITHIN THE 5 PERCENT GUIDELINE WITH A VIEW TOWARD RESTORING THE PAY DIFFERENTIALS ERODED BY PREVIOUS WAGE RESTRAINT. YET, HE ALSO SAID THE GOVERNMENT WOULD ACCEPT HIGHER PERCENTAGE INCREASES (FIGURE UNSPECIFIED) TO PERMIT LOW-PAID EMPLOYEES TO ACHIEVE WAGES OF 44.50 POUNDS PER WEEK, THE CURRENT TARGET FOR A NATIONAL MINIMUM WAGE SOUGHT BY THE TUC. THE GOVERNMENT WOULD EXPECT HIGHER-PAID WORKERS IN THE SAME INDUSTRIES NOT TO PRESS FOR SIMILAR PERCENTAGE RISES.

5. THE CHANCELLOR GAVE A NOD IN THE DIRECTION OF A SHORTER PAY BARGAINING SEASON WHEN HE SAID EFFORTS TO RATIONALIZE PAY BARGAINING IN PARTICULAR INDUSTRIES (BRITISH LEYLAND IS ONE OBVIOUS CASE) COULD GO FORWARD SO LONG AS OVERALL EARNINGS DID NOT RISE BY MORE THAN THE GUIDELINE FIGURE. MR. HEALEY POURED COLD WATER ON THE TUC'S DESIRE TO REDUCE THE WORKING WEEK WITH NO LOSS OF PAY WHEN HE SAID THAT FEWER WORKING HOURS WERE ONLY ACCEPTABLE IF THEY DID NOT PRODUCE A RISE IN UNIT COSTS.

6. IN POLICING THE NEW POLICY, MR. HEALEY SAID THE GOVERNMENT WOULD INSURE THAT PUBLIC SECTOR SETTLEMENTS REMAINED WITHIN THE GUIDELINES. IN THE PRIVATE SECTOR THE CHANCELLOR WELCOMED INDICATIONS FROM BOTH ORGANIZED

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PAGE 01 LONDON 11638 02 OF 02 211706Z  
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LIMITED OFFICIAL USE SECTION 02 OF 02 LONDON 11638

LABOR (TUC) AND BUSINESS (CBI) THAT MODERATION WOULD GOVERN PAY NEGOTIATION. NEVERTHELESS, MR. HEALEY SAID THAT HMG WAS PREPARED TO CONTINUE THE USE OF SANCTIONS AGAINST FIRMS CONSIDERED IN BREACH OF THE PAY POLICY.

7. FINALLY, THE CHANCELLOR SAID THAT PRICE CONTROLS, NOW CONFINED TO SPOT INVESTIGATIONS BY THE PRICE COMMISSION, WOULD CONTINUE, BOTH AT THE LEVEL OF THE FIRM AND THE SECTOR. A BILL WOULD BE INTRODUCED TO EXTEND EXISTING DI-

VIDEND CONTROL LIMITING INCREASES TO 10 PERCENT A YEAR  
FOR A FURTHER 12 MONTHS. IT WOULD CONTAIN A PROVISION TO  
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PAGE 02 LONDON 11638 02 OF 02 211706Z

PREVENT FIRMS FROM PAYING OUT DIVIDENDS FROM FUNDS ACCUMU-  
LATED AS A RESULT OF PREVIOUS YEARS OF CONTROLS. (IT  
SHOULD BE NOTED THAT THERE IS CONSIDERABLE DOUBT AS TO  
WHETHER THE GOVERNMENT CAN MUSTER A MAJORITY FOR THIS BILL  
BEFORE CURRENT CONTROLS EXPIRE ON JULY 31.)

8. COMMENT: THE CHANCELLOR'S STATEMENT TO THE PARLIA-  
MENT HAD A CERTAIN ELECTIONEERING QUALITY STRESSING AS  
IT DID THE SHARP REDUCTION IN RATE OF INFLATION AND COM-  
PARING CURRENT RATES OF PRICE INCREASE WITH THOSE PRE-  
VAILING AT THE END OF THE HEATH GOVERNMENT IN 1974.  
THE PROPOSALS, WITH THE EXCEPTION OF THE WILLINGNESS TO  
ALLOW HIGHER PAY RISES FOR THE LOW PAID, CONTAINED  
PRECIOUS LITTLE FOR ORGANIZED LABOR. AN EARLY AND DE-  
TAILED TUC RESPONSE IS UNLIKELY. THE EXPLICIT THREAT OF  
SANCTIONS AGAINST PRIVATE SECTOR FIRMS AGREEING TO EX-  
CESSIVE SETTLEMENTS CAN BE SEEN AS EVIDENCE OF THE GOV-  
ERNMENT'S INTENT ONCE AGAIN TO DEMONSTRATE ITS MUSCLE  
EARLY IN THE PAY ROUND AND DURING A PERIOD WHICH  
MAY COINCIDE WITH THE ELECTION CAMPAIGN.

9. IN LIGHT OF THE MANY UNFORESEEN DIFFICULTIES WHICH  
PLAGUED THE FIRST HALF OF PHASE III, IT IS VERY LIKELY  
THAT PROBLEMS OF A SIMILAR NATURE WILL AGAIN CROP UP.  
THE CHANCELLOR ADMITTED AS MUCH WHEN HE OBSERVED THAT THERE  
MAY BE OTHER GROUPS WHO COULD QUALIFY AS EXCEPTIONS TO THE  
5 PERCENT NORM BEYOND THOSE ALREADY GRANTED SPECIAL TREAT-  
MENT. HIS STATEMENT DID NOT SHUT THE DOOR ON THE POSSI-  
BILITY OF THE ESTABLISHMENT OF AD HOC BODIES TO INQUIRE  
INTO THE CASES OF GROUPS WITH PAY CLAIMS IN EXCESS OF THE  
NORM.

10. IN ECONOMIC TERMS, THE NEW GUIDELINE WILL TAKE EF-  
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PAGE 03 LONDON 11638 02 OF 02 211706Z

FECT DURING A PERIOD OF RISING OUTPUT AND GROWING SPOT  
SHORTAGES OF SKILLED LABOR. WHILE UNEMPLOYMENT REMAINS  
HIGH, IT IS QUESTIONABLE WHETHER THE GUIDELINE WILL PROVE  
SUFFICIENTLY FLEXIBLE FOR INDUSTRY TO RELIEVE LABOR  
SHORTAGES AS THEY CROP UP. IT SEEMS LIKELY THAT THE OUT-  
COME OF THE COMING PAY ROUND WILL BE A RISE IN EARNINGS  
BELOW THE CURRENT 13-14 PERCENT FIGURE AND ABOVE THE 6-7

PERCENT FIGURE IMPLICIT IN THE WHITE PAPER. GIVEN THE EXPECTED RATE OF ECONOMIC ACTIVITY, NORMAL WAGE DRIFT, AND OTHER SOURCES OF EARNINGS GROWTH, AN INCREASE OF 10-11 PERCENT IN EARNINGS SEEMS A REASONABLE ESTIMATE, ONE THAT COULD BE CONSISTENT WITH A SINGLE DIGIT RATE OF PRICE INCREASE.

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## Message Attributes

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